



Fiscal Reform and Economic Governance Technical Leadership

Second Annual Workplan Covering the period January 2008 through December 2008

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Technical Leadership**

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January 2008

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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Fiscal Reform and Economic Governance (Fiscal Reform II)

The Fiscal Reform and Economic Governance project (Fiscal Reform II) is a Task Order under USAID's SEGIR Macro II Indefinite Quantity Contract and is implemented by DAI. The Task Order was signed by USAID and DAI on September 29, 2006 and runs through September 30, 2010. Fiscal Reform II is a follow-on activity to the earlier Fiscal Reform in Support of Trade Liberalization (Fiscal Reform I) Task Order, which was also implemented by DAI. Fiscal Reform I ended on June 19, 2006.

The project's core staff is composed of Chief of Party (COP), Mark Gallagher, and Deputy Chief of Party (DCOP), Steve Rozner. DAI is the lead implementer of Fiscal Reform II, with contributions from partners Georgia State University (GSU), The Louis Berger Group, Inc. (LBG), and the Center for Global Development (CGD).

This annual workplan covers the period January 2008 through December 2008.

1. PROJECT PURPOSE

Fiscal Reform II assists USAID's Office of Economic Growth to support rapid, sustainable and equitable economic growth in USAID-assisted countries by enabling USAID to better address fiscal and other selected economic governance issues that arise in developing and transition countries. This includes, among other things: 1) the identification of best practices and toolkits; 2) seminars, workshops, and training sessions; 3) field support to analyze the situation, diagnose the problems, and help initiate the resolution process; and 4) quick response field support for bridging or short-term implementation efforts to strengthen local capacity for fiscal management and economic governance. Collectively, these activities strengthen USAID's understanding of the issues and potential solutions and facilitate access by missions and bureaus to the economic governance expertise and training resources needed.

2. FIRST YEAR REVIEW

First year operations saw considerable activity for the Fiscal Reform II team. Highlights are discussed below.

Best Practices. Three best-practice pieces were published: first, on strengthening revenue policy and management; second, on reforming public procurement systems in developing countries; and, finally, on (re-)building fiscal infrastructure and institutions in post-conflict countries. Other best-practice literature efforts, on designing and implementing integrated government financial management

information systems (IFMIS), and on fiscal decentralization in post-conflict countries, are in the final revision stage and should be ready for publication by January 2008.

Although not originally contemplated in the first annual workplan, the best-practice note (BPN) on building revenue policy and management capacity was the first in our first best-practice notes series to be published. The note was adapted from a section of the introductory piece first drafted in 2004 by Sam Skogstad and the Fiscal Reform I project that accompanied the fiscalreform.net webpage on USAID “success stories” in assisting fiscal reform. COP Gallagher worked with Skogstad on revisions made in preparing the BPN. The BPN was published on the fiscal reform website in early May. A color print version was produced for hard copy distribution within USAID and at project and external events.

In June, the project published its second best-practice piece, “Reforming Public Procurement Systems in Emerging Market Countries,” authored by Joel Syquia. The final version incorporated useful comments from a project-hosted seminar in April at which Mr. Syquia presented the study’s preliminary findings, followed by remarks from two distinguished procurement experts, Peter Pease and João Veiga Malta. Rozner also prepared a brief best practice note based on the paper. The BPN and the paper were both posted to the fiscal reform website; a color print version was also produced for hard copy distribution within USAID and at project and external events.

In early December, the project published its third best-practice study, on “Rebuilding Fiscal Infrastructure in Post-conflict Societies.” COP Mark Gallagher was the primary author, with country inputs from Paul Banerjee and Steve Lewarne on Afghanistan and Kosovo, as well as research and editorial assistance from DCOP Rozner. The final version also incorporated comments from a number of reviewers. The study presents seven case studies focusing on the building or rebuilding of fiscal institutions and infrastructure in countries that recently emerged from devastating conflict, including: Afghanistan, Angola, Bosnia and Herzegovina, El Salvador, Guatemala, Kosovo, and Liberia. Based on the country cases, the paper concludes with several pointers for programming and sequencing assistance in post-conflict settings. The key findings of the paper were presented at the October EG Officers Workshop as well as in December at EGAT’s post-conflict EG seminar. An electronic version was posted to the fiscal reform website in pdf. In addition, a color, bound print version was produced as a book for distribution within USAID and at project and outside events. A brief best-practice note based on the longer study will be produced and distribute widely in both print and electronic form.

In late December, the project published the best-practice paper on Fiscal Decentralization in Post-conflict Countries, prepared by Professor William Fox of University of Tennessee. The paper has been published on fiscalreform.net. A brief best-practice note based on the longer study will be produced and distribute widely in both print and electronic form. The project plans to invite Prof. Fox to present at

an outreach event on post-conflict issues tentatively planned for early 2008. The date and format have yet to be decided.

As mentioned above, work on the IFMIS paper, authored by Edwin Rodin-Brown, was substantially completed by end of December and will be ready for publication in January 2008. At the time of this writing, Rodin-Brown was in the process of incorporating comments and suggestions from several USAID reviewers. When completed, the paper as well as the Best Practice Note, will be published on the fiscal reform website and distributed widely in both electronic and print form. The project plans to feature a presentation by Rodin-Brown at an outreach event planned in 2008. The date and format have yet to be decided.

Tools. In the second quarter of 2007, the project introduced a new toolkit: “eLearning Tools” for tax and budget modernization. This toolkit includes a series of technical training materials, prepared recently as PowerPoint presentations, on topics including tax policy analysis, tax administration and customs reform, budgets and budget classification, and taxpayer service. These presentations are adapted from materials that have been previously presented to USAID officers, to host country clients in developing and emerging market countries, or in international organizations and universities around the world. The eLearning Tools presentations have been posted to the fiscalreform.net website. In July, COP Gallagher delivered a short seminar at USAID/W for EG Officers using the tax policy eLearning Tool. Gallagher or others can be called on to deliver similar trainings at the request of USAID missions and other operating units. Visitors to the site can also download and use these materials “off-the-shelf”.

2007 Fiscal Policy Training Course. The project’s annual Fiscal Policy & Management Training for USAID Officers and Host-Country Government Counterparts was successfully held from April 2-6 2007 at George State University’s facilities in Atlanta.

The agenda included presentations by both GSU and non-GSU specialists. Among the GSU presenters were Roy Bahl, who presented on the principles of fiscal policy and fiscal decentralization; Jorge Martinez-Vazquez, on tax policy; Mark Rider, on fiscal incidence analysis; James Alm, on tax compliance; Wayne Thirsk, on reforming intergovernmental fiscal systems; and Jamie Boex, on the links between public expenditures and poverty reduction. Among the non-GSU specialists were COP Mark Gallagher, who presented on tax and customs modernization; Jeff Rozwadowski, on taxpayer service and education; Joel Syquia, on procurement reform; George Guess, on public expenditure management; Malcolm Lane, on IT issues for fiscal management; and Bill Fox, who presented on fiscal management capacity building in post-conflict countries.

Altogether 16 participants attended the course, including participants from USAID/Washington, from USAID Missions in Azerbaijan, Armenia, Bosnia and Herzegovina (BiH), and Guyana, as well as one national project staff from USAID’s

tax reform activity in BiH. Course evaluations reflected a high level of satisfaction with the course.

2007 Economic Growth Officers Workshop. In October 2007, the project helped USAID organize and implement the 2007 Economic Growth Officers Workshop, the first such event since Economic Growth (EG) Officers met in Washington in 2004. The workshop was organized around four themes—thinking strategically about economic growth, programming in post-conflict areas, business climate reform, and the state of the EG profession. Among the key presentations:

- Henrietta Holsman Fore, Director of U.S. Foreign Assistance and USAID’s Acting Administrator, gave the opening remarks.
- Carl Schramm and Bob Litan of the Kauffman Foundation delivered the keynote address, touching on key messages from their new book, *Good Capitalism, Bad Capitalism, and the Economics of Growth and Prosperity*.
- World-renowned economist Arnold Harberger spoke on training host-government counterparts, tax reform in Latin America, and the “resource curse.”
- Simeon Djankov, head of the World Bank-International Finance Corporation’s Doing Business Project, offered a preview of the Doing Business 2008 report.
- H.E. Anwar-ul-Haq Ahady, Afghanistan’s Minister of Finance, highlighted progress in laying the foundations for private sector-led economic growth in his country.
- Steve Hadley, outgoing Director of EGAT’s Office of Economic Growth, introduced the agency’s new economic growth strategy.
- Mary Ott, incoming Director of EGAT/EG, offered “tips” for EG Officers for being successful in their work.

From Fiscal Reform II, Mark Gallagher presented on priorities for assisting tax reform in Central and Eastern Europe and on rebuilding fiscal infrastructure in post-conflict societies. Gallagher also moderated a session featuring Profs. Arnold Harberger and Richard Auty on addressing the “Resource Curse” in resource-rich developing countries.

More than 300 people attended over five days, including staff from Washington, DC and overseas missions, USAID partners, the International Monetary Fund, the World Bank, and various U.S. Government agencies and nongovernmental organizations. Workshop evaluations and informal feedback were widely positive with respect to both the organization and the content of the course.

Fiscal Reform II’s Steve Rozner led the planning and organization from the project’s side, with extensive logistic support from DAI staff in the Bethesda office. DAI’s Krista Baptista facilitated the event. The project team also created a stand-alone workshop website—<http://www.egworkshop2007.net>—featuring presentations, audio recordings of selected sessions, session summaries, background papers, and a gallery of photographs capturing images from each day of the event.

Outreach. The Project also organized two successful outreach events: one on February 15 to present and discuss various tools and initiatives designed to measure and assess tax and public expenditure management (PEM) systems, and the other on April 9 to showcase the project's best-practice paper on reforming procurement systems.

The first event featured presentations by: Mark Gallagher on the Fiscal Reform Project's tax and PEM benchmarking initiatives; Enrique Giraldo on practical application of the tax benchmarking methodology in El Salvador; Rita Ramalho of the Doing Business Project on DB's "Paying Taxes" indicators; Tom Kelly of the Millennium Challenge Corporation (MCC) on the MCC's fiscal indicators; Frans Ronsholt of the Public Expenditure and Financial Accountability (PEFA) Secretariat on the PEFA's performance measurement framework; and Pamela Gomez of the International Budget Project on the Open Budget Index. More than 40 people, including representatives from USAID, World Bank, IMF, US Treasury, MCC, PEFA, and Macro II IQC holders attended the sessions. The project produced a written transcript of the event, which is posted to the fiscalreform.net website, together with copies of PowerPoint presentations.

The second event featured a presentation by Jose (Joel) Syquia, author of the procurement reform best practices paper, on reforming public procurement in developing countries. The presentation was based on a longer training prepared by Syquia and delivered at the GSU Fiscal Policy course the prior week. Mr. Syquia's presentation was followed by remarks from two distinguished experts on procurement reform, Mr. Peter Pease and Mr. João Veiga Malta. The event attracted roughly 30 people, including participants from USAID, World Bank, MCC, US Treasury, and the International Budget Project as well as Macro II IQC holders. The agenda, Mr. Syquia's presentation, and brief speaker biographies are posted to the fiscalreform.net website.

In addition to participation in project outreach events, COP Gallagher spoke or delivered training at several forums over the course of 2007. In March, he presented on tax reform and tax administration modernization in Bosnia and Herzegovina at an EGAT seminar on post-conflict EG programming. In April, he made a presentation at US Treasury's conference in Mexico City, introducing the project's tax system benchmarking work. Gallagher's presentation was at the invitation of Mr. William Remington, head of the tax team in the UST's Office of Technical Assistance. US Treasury paid the travel costs for Gallagher's participation. And, in December, Gallagher presented on rebuilding fiscal infrastructure in post-conflict settings at another EGAT seminar post-conflict interventions.

In-house expertise for USAID. Throughout the year, the project provided ongoing, ad hoc assistance to USAID/W and field missions on selected issues. For instance, throughout the year COP Gallagher engaged in regular exchanges with USAID staff and others regarding on proposals for tax modernization in Liberia.

In June, DCOP Rozner produced a report for the Central Asia Regional Mission highlighting several fiscal and financial sector indicators for the region. The analysis was used in the development of a new economic policy reform program spanning the CAR region (currently being procured under SEGIR GBTI II). Rozner also compiled various data on “the ease of trading across borders” in Central Asia and prepared several slides for a presentation by USAID/EGAT at a meeting with the Office of the US Trade Representative.

In the fall, the Fiscal Reform team began assisting EGAT in developing a database and a macro-fiscal model of the Cuban economy. COP Gallagher and DAI’s Christina Erickson will continue to compile data for the model into early 2008. The model will allow us to link macroeconomic variables to both government spending and revenues, and link expenditure items to real outputs or amounts spent on subsidies for basic consumer goods.

Field requests. While there was considerable activity on “Core” project efforts, the project saw no formal mission field requests in the first year. However, COP Gallagher did complete two investigative missions, first to Liberia (August) and then to Vietnam (September), in support of potential future field-request activities. Other missions, including Egypt and the Philippines, have expressed interest in accessing the project’s services, but possibilities remain to be explored.

Fiscal reform website. In addition to the above, in February 2007 the project revamped and re-launched the fiscal reform website (<http://www.fiscalreform.net/>), introducing a fresh new look, a more user-friendly site, and new organization for a number of the website’s most popular features. The website has become a popular source of information on fiscal reform and economic governance topics, averaging nearly 1,000 hits per day and registering thousands of document downloads from its fiscal reform webLibrary. The project team maintains the website and continues to update information and expand the webLibrary and other site resources.

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During the first year of project operation, the following individuals worked in some capacity on the Fiscal Reform and Economic Governance Project.

Individual	Affiliation	Activities
Gallagher, Mark*	DAI	Chief of Party
Rozner, Steve*	DAI	Deputy Chief of Party
Banerjee, Paul	DAI	Rebuilding Fiscal BPN (Afghanistan input)
Baptista, Krista	DAI	2007 EG Workshop facilitator
Bird, Richard M.	DAI	Feb 15 2007 Seminar
Brondy, Amanda	DAI	2007 EG Workshop support
Canelas, Cynthia	DAI	Website design
Dougherty, Erika	DAI	Website support
Erickson, Christina	DAI	2007 EG Workshop note-taking; Cuba research
Fitzpatrick, Andrew	DAI	Administrative support
Fox, William	GSU	Postconflict decentralization BPN/Atlanta training
Goodman, Paul	DAI	2007 EG Workshop support
Hogan, Louise	DAI	2007 EG Workshop support
Holland, Jaime	DAI	2007 EG Workshop support
Karan, Meral	DAI	2007 EG Workshop: Note-taking
Kent, Joanne	DAI	Publications support
Lewarne, Steve	TSG	Post-conflict BPN (Kosovo input)
Lundberg, Brandon	DAI	Administrative support
Morley, Siiri	DAI	Administrative support
Parker, Steve	DAI	2007 EG Workshop: Note-taking
Rodin-Brown, Edwin	LBG	IFMIS Best Practice Note
Sarbo, Shannon	DAI	2007 EG Workshop support
Syquia, Joel	DAI	Procurement BPN/Atlanta training
Taylor, Adanna	DAI	Benchmarking research assistant
Tardif-Douglin, David	DAI	2007 EG Workshop: Note-taking

* Core project staff.

As of November 30, 2007, approximately 44% of obligated funding, and 9% of the contract ceiling, had been expended.

3. BEST-PRACTICE RESEARCH

The Project will undertake three to five best-practice research activities in each of its four years. In addition, the project will contribute submissions on an *ad hoc* basis to the EGAT Technical Briefs series, either based on best-practice research or as stand alones.

Best Practices Notes have the following characteristics:

1. Directly useful to USAID officers in the assessment, design, review, or evaluation of program interventions;
2. Concise, comprising only 5 to 10 pages;
3. User-friendly, with limited but colorful and useful graphics and photos, and easy to read, in two columns with a header;
4. Published electronically in PDF but with hard copy distribution available; and
5. Posted on the fiscalreform website.

The methodology for producing these best practice publications, when existing literature on the topic is not already sufficient or perhaps not even existent, is to first produce a longer analytical document drawing from specific experiences, and then for Fiscal Reform II core staff to produce final, best practices notes.

The first year best practice agenda included: (i) Reforming Public Procurement in Developing Countries, (ii) Building Capacity in Revenue Policy and Administration, (iii) Building Fiscal Infrastructure in Post-conflict Societies, (iv) Fiscal Decentralization in Post-Conflict Countries, and (v) Designing and Implementing Integrated Government Financial Management Information Systems.

DAI has developed a tentative agenda for the second year, but welcomes additional suggestions. These will all be completed during the second project year, i.e. by the end of December 2008.

A. Tax systems and the enabling environment. Tax reform is frequently a focus of efforts to enhance the enabling environment for private sector-led growth in developing and transition countries. This requires not only attention to the policy aspects of taxation—e.g., the types of taxes, their base, and their rates—but also the administrative aspects of the tax system that affect both tax collection and compliance. This means looking at distinctive features of a number of taxes that can complicate administration and compliance (e.g., the VAT refund mechanism, withholding systems for income tax, etc.); the procedures and timing for paying taxes, and in particular, queuing; the costs of compliance; the number of taxes on the books; the number and complexity of forms; etc. This best-practice note will consider these concerns and outline some recommendations for reducing the complexity and size of the compliance burden for businesses.

Responsible: COP Gallagher.

B. Recent trends in tax policy reform. The past several decades have witnessed a broad spectrum of tax reform initiatives in countries around the world. The policy challenges and the impetus for reform have differed widely across countries, but the policy measures have been broadly similar. These measures include the spread of the VAT; reductions in direct tax rates and the growing popularity of “flat” taxes; reductions in duty rates; and, growing attention to issues such as the “tax wedge” on labor and taxation of natural resources. The IMF recently published a study that examines global and regional developments in tax policy reform and summarizes the main economic factors that shape these developments.¹ The project will summarize the main points of the IMF study as they relate to taxation and tax reform in developing and transition countries. This summary piece will be published both as a “Technical Brief” for USAID/EGAT and as a stand-alone document to be distributed by the project and posted to the fiscalreform.net website.

¹ John Norregaard and Tehmina S. Khan, *Tax Policy: Recent Trends and Coming Challenges*, IMF Working Paper No. 07/274, December 2007.

Responsible: DCOP Steve Rozner will collaborate with Danielle Dukowicz (EGAT/EG) in the production of this piece.

C. Policy analysis units. Establishing a policy analysis unit is often a key component of efforts to build the capacity within governments to carry out sound fiscal and economic policy analysis. Recent examples include the Fiscal Programming Unit in Angola and the Macroeconomic Department in Kosovo, both established with USAID assistance. Policy analysis units can help expand the coverage, accuracy and timeliness of monitoring and forecasting on fiscal parameters and can help governments manage and align expenditure and revenue flows with plans and priorities. This Best Practice Note will focus on the role of such units, their main functions and staffing requirements, with reference to actual experiences in setting up similar units in various host countries. The Best Practice Note will also provide recommendations for establishing indicators of performance or capacity that will be useful to USAID officers designing policy analysis unit assistance programs.

Responsible: Jorge Martinez, GSU. COP Gallagher will supervise the work.

D. Building sustainable capacity in fragile states. Countries emerging from conflict have tremendous and immediate needs, yet few have governments capable of providing basic services or laying the foundations for economic recovery.² This best-practice note will explore strategies for supporting the development of economic governance capacity in rebuilding countries, addressing the main challenges and tradeoffs in targeting technical assistance and resources.

Responsible: Derick Brinkerhoff (Research Triangle Institute) will prepare the BPN and participate in an outreach event on the topic. COP Gallagher will supervise the work.

E. The extractive sectors and fiscal transparency. The recent surge in world oil and gas prices has brought renewed attention to the serious challenges resource abundance presents for developing and rebuilding countries. In an effort to address the negative effects of a resource bonanza, resource-rich countries are increasingly heeding international demands for greater transparency with respect to revenues and payments from the extraction and sale of their natural resources. A variety of diagnostic tools exist, such as: the IMF's code on fiscal transparency and its guide on resource revenue transparency; the PEFA framework; and the World Bank's core diagnostics (PER, PEMFAR, etc.). However, these rarely look at the extractive industries directly, or otherwise treat only part of the problem (e.g., reporting on

² For a recent discussion on capacity development in fragile states, see Brinkerhoff, D.W. 2007. *Capacity Development in Fragile States*. (Discussion Paper 58D). Maastricht: ECDPM.

resource revenues, but not on resource-related payments). There are also a variety of initiatives, including the Extractive Industries Transparency Initiative (EITI) and the Publish What You Pay (PWYP) campaign, which are still developing and evolving but are gaining increasing attention and acceptance among governments and companies alike. This study will look at existing tools and policies/guidelines for improving fiscal transparency in oil- or otherwise natural resource-rich countries. It will explore options for improving the effectiveness of existing tools and initiatives and consider whether a new tool or framework is needed.

Responsible: USAID/EGAT has contracted for a broader study on “resource curse” issues with a separate contractor that will be completed in early 2008. EGAT will make a decision on whether to pursue this proposal after reviewing that study. Should the decision be to pursue it, DCOP Rozner will take responsibility for the research.

4. TOOLS

Tools are analytic devices that help us to accomplish assessments, analyses, designs, or evaluations relevant to bringing about institutional, organizational, or developmental change. In particular, the Fiscal Reform II Project focuses on development of tools that can be useful in terms of fiscal reform and the furtherance of economic governance.

Among the project’s existing tools are: (i) the Tax Benchmarking methodology and the original 2004 Tax Benchmarking database, developed under Fiscal Reform I; and, (ii) “eLearning Tools” for tax and budget modernization, a series of instructional PowerPoint presentations developed for diverse audiences and refined by the Fiscal Reform II team for use by USAID officers around the world.

The project proposes the following tentative agenda for Tools in year 2.

A. Tax Benchmarking database: *Collecting Taxes*. During the first year of the project, the project made substantial progress on updating the Tax Benchmarking database, first published in 2004. The 2007/08 update relies on newer data (i.e., 2005 and 2006 and some from 2004) and features several new indicators, including total social contributions (i.e. labor tax) burden and the “tax wedge.” The new *Collecting Taxes* version of the database contains 27 tax and tax-related variables and covers 175 countries and territories. The updated system is nearly complete, and will be posted in February 2008.

The project is exploring options for making the database interactive. A visitor to the *Collecting Taxes* site will be able to select a country, then compare that country to others in the region, or select specific countries for comparison. Once selected, an automated report will be created that (1) discusses section by section what each indicator is about, (2) compares the target country with the comparison countries, and (3) compares the target country with the average for the geographic region as

well as for its income grouping, e.g., low-income, lower-middle, middle-income country, etc. (using the World Bank's classification schemes for these last two categories).

The resulting report will provide the user with some key, evaluative information about the target country, namely:

1. How well the target country collects the corporate income tax, the personal income tax and the VAT and how overall revenue-/cost-efficient the tax system is;
2. How the target country's tax rates and tax wedge compare with the region, with other selected countries, and with countries from its income grouping;
3. How the tax administration is structured and how this compares to "best practice", e.g., functional organization or not, autonomous or not, taxpayer segmentation (i.e., large taxpayer unit) or not; and,
4. How appropriate tax administration staffing is in terms of its extension into general society and, more specifically, its extension into the taxpayer population.

In addition to the above, the user can down-load the entire database into MS Excel.

The database will be a living information source, to be updated annually or as newer data become available. The project team will be able to edit database content directly to reflect changes and updates.

To increase the appeal to non-experts both within and outside USAID, the database will be branded simply *Collecting Taxes*. The new web-based system will be linked to the fiscalreform.net site, but will also be found at the URL address "www.collectingtaxes.org" or similar, depending on availability. By tagging the site with the appropriate meta tags, a Google search for "collecting taxes", "tax collection" or similar such queries will bring up the new database as a top hit.

Responsible: Data collection and entry will be the responsibility of Adanna Taylor, Research Assistant, as well as Steve Rozner and Mark Gallagher. The project will enlist the assistance of a DAI web developer and a DAI database specialist in developing the web-based system.

B. Expenditure System Rapid Assessment Tool. A variety of literature already exists on practices and guidelines for good public expenditure management (PEM). Indeed, both the World Bank and the Asian Development Bank have published comprehensive and extensive manuals. The Asian Development Bank Public Expenditure Handbook includes a convenient checklist of what it recommends as desirable components for public expenditure management systems. The World Bank's Public Expenditure and Financial Accountability (PEFA) program, meanwhile, provides another framework for evaluating PEM institutional setup. What is lacking, however, is a convenient tool for *rapidly* assessing PEM performance—in fact,

according to the PEFA Secretariat, the shortest PFM assessment its program has conducted took roughly six months to complete.

In the project's first year, research on developing a methodology for assessing and comparing public expenditure management (PEM) systems was initiated, but was then put on hold due to make room for other priorities. In year 2, Fiscal Reform II will pick up this activity anew. The project will review the existing resources and literature on the topic, develop a framework for data management, define information sources, and then collect comparative data on public expenditure management systems around the world. The exact scope and format of the tool will be decided in consultation with the USAID Activity Manager and peers in the public finance community of practice

Responsible: Mark Gallagher will initiate this work, develop the frameworks and define the data sources, and then Steve Rozner will collect the data with assistance from the project's Research Assistant.

C. Sample tax microsimulation model: *Calculating Tax Impact.* Microsimulation is a powerful tool for tax policy analysis. Using data for a representative sample of taxpayers, a microsimulation model calculates revenue yield and incidence of a tax both under current law and under alternative scenarios. Based on these calculations, the model produces estimates of the revenue consequences of different tax policy choices, as well as their effects on the distribution of tax liabilities (e.g., by income group) and marginal effective tax rates, which affect incentives to work, save, and comply with tax laws). Microsimulation models were used effectively in Bosnia and Herzegovina to demonstrate the “before” and “after” effects of alternative income tax reform options. The project will build on models previously developed and used in specific countries and create a clearly documented, interactive, MS Excel-based tool for USAID officers and programs to use and adapt when addressing tax policy reform in host countries. The model template will be posted to the Fiscalreform.net ‘Tools’ section in Year 2.

Responsible: Mark Gallagher.

D. Sample macro-revenue projection model: *Forecasting Revenues.* Ministries of Finance and Tax Departments must make annual revenue forecasts as part of the budget process as well as to plan their work programs. In most countries around the world, multiyear revenue forecasts, accompanied by estimates of macro aggregates, are needed for longer-term budgeting and planning purposes. A Revenue Projection Model template has been developed and put into use in Angola, El Salvador, and Tanzania. This model can serve as a starting point for USAID and others in performing revenue projection and forecasting in host countries. A clearly documented, interactive, MS Excel-based template will be posted to the Fiscalreform.net ‘Tools’ section in Year 2.

5. SUCCESS STORIES

During the course of the project, the Fiscal Reform II team will prepare “success stories,” as well as revise some of the success stories that have already been prepared. In the project’s first year, one success story was completed, on the USAID-assisted VAT reform in the Republic of Serbia. The document is posted on the Fiscalreform.net website.

In year 2, the project offers for discussion the following possible topics, but welcomes additional suggestions.

- Tax Reform in Republic of Georgia;
- Impact of Fiscal Reform I’s Assistance to Vietnam;
- USAID Assistance to MCC Threshold Countries (e.g., Sao Tome & Principe, Paraguay, Mali).

In addition, there might be scope or justification for revisiting some of the existing case studies to update on the current status of reforms.

Preparation of these studies, or substitution of others, will have to be planned over the year of implementation.

Responsible: Steve Rozner

6. IN-HOUSE EXPERTISE FOR USAID

The project’s core team, including COP Gallagher and DCOP Rozner, provides this service on an on-going basis to USAID/W and overseas missions. The COP may also call on members of the project’s Board of Advisors and outside experts to respond to queries as necessary. Most requests entail a short (i.e., not more than two days of effort) response, although longer efforts may sometimes be warranted, subject to CTO and Activity Manager approval. Ongoing work on a request from EGAT to gather fiscal and other data on the Cuban economy, for example, will continue into early 2008.

Enquiries from the field might include items such as:

- A. Request to review a concept paper/SOW for the design of a new USAID program addressing tax or budget reform, fiscal decentralization, or other policy reforms.
- B. Request for comment on papers or positions taken by IMF, World Bank or other international organizations or donors.

- C. Request for a tax system assessment for a particular country or set of countries.
- D. Preparation of tax benchmarking profile for a country.
- E. Specific comment on trends or best/appropriate practices concerning a variety of issues, such as:
 - a. Should medical and foodstuffs be exempt from VAT?
 - b. What methods exist for measuring tax effort at the local level?
 - c. Should the property tax be ad personem or ad rem?
 - d. Can you find me good reading material on Medium Term Expenditure Frameworks?
 - e. What is a Public Expenditure Tracking System (PETS) and where do these exist?
 - f. How can VAT exemptions be managed for donor projects and for exempt international community?

Responsible: Allocation of queries to Project Staff and advisors will be determined by COP Gallagher.

7. ANNUAL WORKSHOP

The project did not hold an exclusive fiscal reform workshop during the first project year, but instead helped EGAT organize and deliver the larger Economic Growth Officers Workshop in 2007.

Given the sheer number of EGAT courses that have already been scheduled for the 2008 calendar year, the decision has been made to hold off on planning for a specific fiscal workshop this year. The project will still hold its annual training course on Fiscal Policy and Management at Georgia State University in Atlanta, now scheduled for mid-June (see # 8 below).

8. ANNUAL TRAINING COURSE

Training will be provided for between ten and 20 USAID officers per year at Georgia State University's campus in Atlanta, Georgia. Based on GSU's annual fiscal policy summer training programs and areas of expertise in fiscal policy, GSU will develop week-long training courses focused on USAID's specific needs. The traditional course coverage is being expanded to include a number of key aspects of economic governance, and is being further developed to incorporate participant experiences with fiscal reform projects in their countries. In addition, the training will hold a roundtable on how to develop a fiscal reform project in a developing country context.

The 2008 training is scheduled for June 9 to 13, 2008. The tentative agenda for the course is presented here.

Date	Morning Session (09:00 – 12:00)	Afternoon Session (13:00 - 16:00)
Monday, Jun 9	Session 1 Fiscal Policy: An Overview (Roy Bahl, GSU)	Session 2 An Overview of Fiscal Decentralization Reform (Roy Bahl, GSU)
Tuesday, Jun 10	Session 3 An Overview of Tax Policy – Concepts and Practices (Jorge Martinez, GSU)	Session 4 Budget Planning and Expenditure Management (Katherine Willoughby, GSU)
Wednesday, Jun 11	Session 5 Fiscal Incidence Analysis (Mark Rider, GSU) Tax Compliance & Evasion (James Alm, GSU)	Session 6 Procurement Reform (Peter P. Pease*)
Thursday, Jun 12	Session 7 Public Expenditures and Poverty Reduction (Eunice Heredia-Ortiz) Fiscal Reform and Fiscal Architecture (Sally Wallace, GSU)	Session 8 Tax and Customs Administration in a Developing Country (Mark Gallagher, DAI/Fiscal Reform Project)
Friday, Jun 13	Session 9 Building Fiscal Management in Post-Conflict Countries (Mark Gallagher, DAI/Fiscal Reform Project)	Session 10 IT, E-Govt issues affecting Public Financial Management (Edwin Rodin-Brown*)

Responsible: This activity will be implemented by GSU, but with project supervision of Gallagher. Participant travel and logistics will be handled directly by Missions and participants, with support from GSU staff.

9. FIELD REQUESTS

Field requests generally start as identification of a problem and request for an unspecified amount of assistance. These requests are typically channeled from USAID missions through the USAID Activity Manager to the COP. The COP will then prepare a draft response in consultation with the Activity Manager, who will then transmit the response to the field mission. Once the field mission agrees with the approach, the COP will prepare a budget for the work and submit this for final review and approval. Final review and approvals are given by the CTO.

In year 1, COP Gallagher completed two scoping missions, first to Liberia (August 2007) and then to Vietnam (September 2007), in support of potential future field-requested activities. Following each trip, Gallagher wrote up recommendations and a

proposal for follow-on work to be completed with Fiscal Reform project assistance. However, at this writing, no formal mission requests have been received, and the project awaits further instructions.

Other missions, including Egypt and the Philippines, have expressed interest in accessing the project's services, but possibilities remain to be explored. The USAID Activity Manager is looking into these and other opportunities.

10. OUTREACH

We propose to carry out up to four outreach events during 2007. These will each last about 2-3 hours and will be held in the USAID Library/Public Information Center in the Ronald Reagan Building. USAID/EGAT will secure the library space for these events. Proposed outreach events are discussed below.

A. Fiscal Challenges in Post-conflict Societies. This panel event will feature multiple perspectives on rebuilding fiscal institutions and infrastructure in post-conflict settings: First, a presentation by COP Mark Gallagher on the overall picture, based on the lessons from his best-practice publication on the topic. This will be followed by presentations focusing on particular interventions in areas such as: customs modernization (proposed speaker: Luc De Wulf, World Bank); intergovernmental fiscal relations/decentralization (proposed speaker: Bill Fox, U. of Tennessee); and, (re-)establishing financial management/expenditure control (proposed speaker: Steven Symansky, IMF). Bill Fox 's presentation will draw on key points from the best-practice paper he has prepared for the project, while De Wulf and Symansky will draw on recent work in their respective areas. To attract a wide audience, both USAID and non-USAID, the project will explore holding such an event at the World Bank or other location with adequate space and convenient public access.

Responsible: Gallagher and Rozner. Andrew Fitzpatrick will provide logistic support.

B. IFMIS panel discussion. A brief presentation and panel discussion of the issues of designing and implementing integrated financial management information systems (IFMIS) for developing, transition, and rebuilding countries. The presentation will be made by Edwin Rodin-Brown based on his best-practice paper on the topic. Steve Rozner will serve as the moderator. Commentators from USAID (e.g., Judy Payne) and other organizations, such as the World Bank, IMF, US Treasury, and/or USAID contractors, will be invited to participate on the panel. A list of invitees will be developed with USAID/EGAT.

Responsible: Steve Rozner. Andrew Fitzpatrick will provide logistic support.

C. Presentation of Year 2 best-practice research. The scope and scale of this event, or series of events, will depend on final decision on BPN topics and other factors. The project will make these decisions in consultation with the CTO and Activity Manager. In addition to BPN topics, the team proposes considering a presentation on the project's indicators for assessing and measuring tax system performance, highlighting key trends and issues that emerge from analysis of actual data collected for the Tax Benchmarking database. Invitation lists will be developed with USAID/EGAT.

Responsible: Steve Rozner. Andrew Fitzpatrick will provide logistic support.

D. The extractive sectors and fiscal transparency. This event will follow on the publication of a best-practice note on the topic (see section 3 above). The event will feature a panel discussion with possible participation from the IMF, EITI or PWYP, the Revenue Watch Institute, USAID and US Treasury. Specifics will be discussed and decided in consultation with the USAID CTO and Activity Manager.

Responsible: Rozner. Andrew Fitzpatrick will provide logistic support.

Aside from formal outreach events, Gallagher and Rozner will continue to engage counterparts from other Washington, DC based institutions, sharing the project's work agenda and seeking collaborative efforts. The project will also continue to distribute the project pamphlet at events and when meeting with peers in USAID and the broader community of practice. And, the project will continue to expand its mailing lists for distribution of project outputs and event announcements.

The Activity Manager will continue to inform EG Officers and others in USAID of the project, its activities (including the June 2008 training at GSU in Atlanta and the annual workshop), and how it can be accessed to provide assistance.

11. FISCAL WEBSITE

The fiscal reform website (<http://www.fiscalreform.net/>) continues to be a popular destination for literature, tools, best practices and other information on fiscal reform and other economic governance topics. The website has been an extraordinarily successful tool for disseminating information about fiscal reform activities around the world, receiving more than 1,000 visits per day, not including visitors from US Government domains (who cannot be "cookie'd").

On March 1 2007, the newly revamped fiscalreformn.net site went "live", improving on the old site in a variety of ways. The site is more intuitively organized and pages are easier to navigate. It has a more modern, professional look. It features a more advanced search function, enabling keyword searches for content throughout the website. Last but not least, it features a built-in content management system that allows core project team members to edit and add content directly. Over the course

of the project's first year, DCOP Rozner is already proficient in managing site content.

The project team will continue to expand the scope and content on the website, adding new literature to the webLibrary as it becomes available; posting project documents and information on project events and resources; and, improving the accessibility and performance of its various tools. This includes development of a more interactive database for the Tax Benchmarking tool, allowing for cross-country and time series analysis of tax indicators and automated generation of tables or figures (similar in format and functionality to the Doing Business Project's web-based data sets).

In addition, the project will continue to track website use statistics in its quarterly progress reports.

Responsible: Rozner will manage the website content on a daily basis, and DAI staff members Cynthia Canelas, Erika Dougherty and Joanne Kent will provide technical service.

12. PROJECT TEAM

Project implementation is led by DAI in collaboration with Georgia State University (GSU), the Center for Global Development (CGD), and The Louis Berger Group, Inc. (LBG).

Core team: The project's core staff remains unchanged. Mark Gallagher continues as COP and is supported by Deputy Chief of Party, Steve Rozner, both of DAI staff.

In October 2007, the project brought on a part-time Research Assistant, Ms. Adanna Taylor, to help complete data collection for the 2007 update of the tax benchmarking database and to start data collection for proposed public expenditure systems benchmarking work. Ms. Taylor is working for the project on a half-time basis over six months, between end-October 2007 and end-April 2008.

Board of Advisors: Senior technical expertise will be provided on an ongoing basis by the project's Board of Advisors, including Richard Bird (DAI), Roy Bahl (GSU), Jorge Martinez (GSU), and Denis de Tray (CGD). Other technical expertise will be provided by a wide range of specialists at the instruction of the COP.

13. ADMINISTRATION AND REPORTING

Administration: COP Mark Gallagher continues to provide overall technical leadership and management for Fiscal Reform II. Administrative support is now provided by DAI's Andrew Fitzpatrick.

To a great extent, scopes of work, field request action plans, and other such project management materials will be prepared by Gallagher. However, in some instances this work can be done by Rozner.

Project Office: The project team has been operating since February 2008 at a project office in downtown Washington, DC based on a lease that will expire on January 31, 2008. As of this writing, the project is considering other options should the project be unable to negotiate satisfactory terms for a lease extension. The CTO and Activity Manager will be kept apprised of any decisions made in this regard.

Periodic Reporting: DAI will provide USAID with a quarterly progress report against this workplan each quarter, beginning January 15, 2007. The quarterly report will also include financial data.

DAI currently provides USAID/EGAT with project accruals for all SEGIR Macro II task orders on a monthly basis. We will provide these data for this project to the Activity Manager and CTO by the end of each month.

14. FINANCIAL PLAN

The following table presents our best estimates of the likely expenditures to be incurred during the period January 1, 2008 through December 31, 2008. Actual costs incurred during this period will vary with progress made under the core aspects of the project, decisions about options, such as whether or not to hold the annual workshop, and demand for field requests.

Table 1: Financial PlanEGAT/CORE

<u>Labor</u>	<u>Cost</u>
Gallagher, Mark	200,000
Rozner, Steve	175,000
Erickson, Christina	28,000
Research Assistant	13,000
Admin support	12,000
Consultants, level	250,000
Collecting Taxes Database	33,000

ODCs

GSU training	65,000
Small conferences/seminars	10,000
Office, telecom, other	39,600
Travel	10,000
Miscellaneous, G&A	20,000
G&A on ODCs	18,000

Field Requests/mission cost only*Mission 1: Vietnam (tax reform only)*

Labor	125,000
Travel and ODCs	50,000
<i>Other missions</i>	
Labor	210,000
Travel and ODCs	80,000

Total EGAT costs	850,000
Total Mission costs	465,000
GRAND TOTAL	\$ 1,315,000

15. GANTT CHART

The Gantt Chart is not used as a presentation tool. Rather, it is used as a means of developing in sequential, logical and dynamic fashion the steps that must be carried out in order to complete discrete, and sometimes not discrete, tasks. Non-discrete tasks are recurrent tasks, such as reporting or maintaining contacts over time.

The Gantt Chart results from entering information into the MSProject database in a structured format applying certain project management rules. MSProject then produces the Gantt chart and can produce other tools, such as a calendar that includes each day's work that is to take place under the overall project. A very important output of MSProject is the monitoring chart that reports progress or lack of progress according to plan.



